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REVOLVING DRUG FUND DEVELOPMENT AND FACT-FINDING MISSION TO BISHKEK, KYRGYZSTAN

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TABLE OF CONTENTS

ITEM	PAGE NUMBERS
I. EXECUTIVE SUMMARY	2
II. BACKGROUND	3
III. OBJECTIVES	3
IV. PRELIMINARY FINDINGS AND RECOMMENDATIONS	
A. REVOLVING DRUG FUNDS	4
B. KYRGYZSTANPHARMACIYA COMPANY	5
C. PRELIMINARY RECOMMENDATIONS	6
V. TRIP ACTIVITIES	8
VI. REFERENCES	
A. BIBLIOGRAPHY	11
B. PERSONS CONTACTED	12
VII. ANNEXES	
A. LISTS OF CRITICAL DRUGS	13
LIST #1	
LIST #2	
B. LIST OF USAID CONTRACTORS	13

I. EXECUTIVE SUMMARY:

The health system of the Kyrgyz Republic is in the process of undergoing a major transition from the traditional Soviet model, dominated by medical specialists, and built heavily on a number of specialty hospitals, polyclinics, and dispensaries. The old system favors large numbers of admissions to hospitals, long lengths of stay (LOS) in the hospital, heavy referrals to specialists, large numbers of visits to ancillary services and out-patient polyclinics, and a high rate of dispensing of medications, drugs and pharmaceutical products. The Intensive Demonstration Site (IDS) in Issyk-Kul Oblast and the Karakol region is moving toward a primary medical care system based on a family practice model., which will significantly reduce referrals, admissions, and hospital LOS. If this change to a primary care model is to be successful, then a reliable supply of efficacious drugs will be required. With the severe shortage of public funds, the possibility of setting up an effective Revolving Drug Fund (RDF) is a strong need.

This consultant, along with Mr. Charles Krakoff, Privatization Specialist in the ZRP Almaty office, were sent to Bishkek, Kyrgyzstan, on a fact finding mission prior to the World Bank Study on the Feasibility of a RDF. The objectives of the trip were to assess the present environment for pharmacy privatization, to review the changes that had occurred in Kyrgyzstanpharmaciya (new joint-stock pharmaceutical company), to assess the possibilities of an RDF in the IDS in Issyk-Kul Oblast, and to collect some pre-study data for the World Bank team under contract to Abt arriving in mid October.

The privatization portion of this trip report is covered in a more detailed report by Mr. Charles Krakoff. This paper will focus primarily on the Revolving Drug Fund and the environment and structure of Kyrgyzstanpharmaciya Pharmaceutical Company, and the role they might play in any future RDF. While the visit was short, carried out over only four days in Bishkek, and while primarily fact finding, we have outlined the following preliminary findings and recommendations:

- Setting up an effective and efficient Revolving Drug Fund in Kyrgyzstan will not be an easy task, and the Ministry of Health (MOH) will need to make some significant changes in policy in order to ensure cost recovery for the program,
- Kyrgyzstanpharmaciya, the new national joint-stock pharmaceutical company, has significant strengths, including organization, personnel, property, equipment, knowledge, management, and leadership to make such a RDF successful,
- A Revolving Drug Fund is a strong need in the Issyk-Kul Oblast, and the Karakol IDS would be an excellent demonstration site for a trial of any new RDF to be developed on a national level.

II. BACKGROUND:

This trip report is a review of the work which occurred during the consultant's second visit to Kyrgyzstan. The trip was carried out during the period October 8-13, 1995 in Bishkek, Kyrgyzstan. The major focus of the trip was to gather information for ZRP on the possibilities of assisting the Republic of Kyrgyzstan on privatization of the pharmacy sector, of the possibilities of an effective Revolving Drug Fund (RDF), and of the applicability of that RDF to the Intensive Demonstration Site (IDS) in Karakol, Issyk-Kul Oblast. The visit was primarily a fact finding mission, and a pre-visit data collection task, prior to the arrival of the Abt consultants who would be doing a feasibility study for the World Bank on the possibilities of a Revolving Drug Study. The consultant had spent the previous three weeks in Karakol, and the need for some type of pharmaceutical procurement and distribution system was identified as a high priority for the project. Consequently, the fact finding mission to Bishkek on the RDF was authorized. This report will focus primarily on the RDF portion of the visit, and a separate report by Mr. Charles Krakoff, Privatization Specialist, will focus on the privatization issues.

III. OBJECTIVES:

The SOW, major objectives, tasks and outputs for this consultant were as follows:

- To talk with senior Government and Health officials on the possibilities of a Revolving Drug Fund (RDF) and its application to the Intensive Demonstration Site (IDS) in Karakol,
- To assess the possibilities of providing assistance in the area of privatization of the Pharmaceutical Sector,
- To identify and assess the management and financial structure of Kyrghyzpharmaciya, the State Pharmaceutical company,
- To collect data on the list of drugs to be included in the RDF,
- To gather facts and data which might assist the consultants conducting the World Bank RDF Feasibility Study.

IV. PRELIMINARY FINDINGS AND RECOMMENDATIONS:

A. REVOLVING DRUG FUNDS

BACKGROUND:

Revolving Drug Funds (RDF) have been set up successfully in a number of countries (see bibliography). Pharmaceuticals are critical for effective preventive and therapeutic health and medical services. Public funds for these drugs are limited and the demand usually exceeds the supply. One method for financing pharmaceutical supplies is the concept of a “Revolving Drug Fund”, where, after some initial capital input, pharmaceutical supplies are replenished through funds collected from the sale of these drugs to patients.

The successes and failures of these programs has been well documented in a wide range of programs in both Asia and Africa. While the concept is very attractive to countries with limited funds, experience has shown there are many difficulties and hazards along the way to developing an effective revolving drug fund. “These problem areas are as follows:

- (1) under-estimation of capitalization costs,
- (2) prices set below true replacement cost, frequent failure to collect payment,
- (3) delays in cash flow, which make funds unavailable for replenishment of stocks,
- (4) rapid program expansion for which additional capital funds are not available,
- (5) losses due to theft and deterioration of drugs,
- (6) unanticipated price increases due to inflation or changes in parity rates and,
- (7) foreign exchange purchase restrictions.

Common to many of these problems is the lack of a businesslike orientation to RDF's and, in particular, lack of careful financial planning and management. Financial planning for an RFD includes four analytical tasks:

- (1) assessment of the potential market,
- (2) estimation of the costs of an RDF,
- (3) establishment of the cost-recovery objectives,
- (4) definition of the role of subsidies and surcharges.” (see Bibliography, item 3)

The Kyrgyz Republic has commissioned a feasibility study using World Bank funding to investigate the possibilities and pitfalls of setting up an RDF in Kyrgyzstan. Consultants from Abt Associates are arriving in mid October to begin this study. The information, findings, and recommendations in this trip report are meant to supply pre-study data for these consultants, as well as to give the ZRP IDS in the Issyk-Kul Oblast some of the necessary information for decision making with regard to setting up an RDF in the Karakol region. (See Bibliography for list of key articles of RDF'a)

B. KYRGYZSTANPHARMACIYA PHARMACEUTICAL COMPANY AND THE LOCAL ENVIRONMENT

The environment for the supply, distribution, and sale of pharmaceutical products in the Kyrgyz Republic has undergone significant change during the last year. The previous model was the top-down Soviet system of a State Pharmaceutical Company buying, wholesaling, storing, supplying and selling all pharmaceutical products in each Oblast and central Raion. The new system is based on independent joint-stock companies in each Oblast as well as the newly structured and independent joint-stock company called Kyrgyzstanpharmaciya Pharmaceutical.(see report by Charles Krakoff for distribution by specific stock categories and privatization issues update).

Kyrgyzstanpharmaciya is now primarily a wholesale company, although they still have a number of retail outlets and personnel, primarily in Bishkek. The company still has approximately 250 personnel including 50 pharmacists, and 100 personnel in retail, 125 personnel in wholesale, and 25 personnel at corporate (down from 100 previously). The company now has strong contractual agreements and can sell pharmaceuticals on consignment., can buy directly from manufactures, and can do barter deals if necessary. The newly restructured company (in the opinion of its General Director) still has significant property, trained staff, educational materials, computerization, management, stable prices, and smaller markups than local sources.

The new Oblast joint-stock companies are financially and economically independent and can buy pharmaceutical from whomever they want. Although they have little or no funds to buy drugs, they can also do barter deals and buy directly from manufactures on consignment. It is estimated that these companies and the newly privatized pharmacies have a liability of \$4-5 million on their books due to the breakup of the State monopoly and valuation of the remaining inventory. Over the last year private entrepreneurs, know as “challengers” have come into the market, primarily from Pakistan, and are selling unregistered drugs to hospital chiefs with kickback arrangements for buying their specific drugs. According to the GD of Kyrgyzstanpharmaciya this practice has turned hospital chiefs into “business men” not only interested in the welfare of their patients.

It is estimated that there are some 1000-2000 different drugs now circulating throughout the country. The present maximum markup on pharmaceuticals is now 20%, although many drugs (TB, oncology, etc.) are said to be sold with smaller markups of 5-6%. Other suppliers and reputable manufactures have also come into the market, and the retail market is estimated by the GD at \$8 million, excluding the hospital sector. Manufacturing of pharmaceuticals within the country is practically non-existent, although there is an herbal plant in the development stages.

The Ministry of Health (MOH) has developed a list of 295 essential drugs from the WHO list and is in the process of developing a list of 58 critical drugs. The list of 295 essential drugs appears in the Appendix of this report and is broken down into two categories: list #1 of 195 wide area essential drugs, and list #2 of 105 drugs for special facilities. The hospitals have little or no funds for drugs and the population is said to be generally poor and unable to afford the cost of drugs and pharmaceuticals (see comments by Dr. Mambetov in Activities section of this report). While the environment is conducive for a RDF there are many obstacles to be overcome.

C. PRELIMINARY RECOMMENDATIONS:

This consultant, along with Mr. Charles Krakoff, were requested to do some preliminary data and fact finding for the Abt consultants doing the World Bank Feasibility Study, and arriving in mid October. A number of issues from the World Bank SOW were highlighted for early review. These included items (i), (iii), and (iv) under section B. of Institutional Viability. These issues are as follows:

(i) Review the existing supply and distribution options available to MOH and suggest a suitable organizational mechanism for purchase and distribution of drugs to various end user facilities. In this regard, analyze the structure and characteristics of Pharmaciya, its corporate statue, financial accountability and strength, and describe the role it will play in the RDF. Identify weaknesses which need to be addressed either prior to or during project execution to increase capability and efficiency.

(iii) Recommend and describe a structure of the proposed RDF, its staffing, costs and relationship to Pharmaciya and the MOH.

(iv) Describe the actions required by the Government to establish the RDF, both at the policy and legal levels, and prepare a time-phased plan for implementation.

Some of the information requested above appears in the Findings Section of this report, in the Activities Section, and in the Appendix Section, as well as in the separate report by Charles Krakoff. While there was not time to investigate thoroughly all of the areas listed above, and the World Bank team will no doubt form their own conclusions, outlined below are some preliminary findings and recommendations:

(1.) The newly structured Kyrgyzstanpharmaciya Pharmaceutical Company appears to be the best and only national vehicle for the management and operation of an RDF. They appear to have the potential *strengths* to supply the necessary purchase, warehousing, distribution, and sale of pharmaceuticals which is necessary for any RDF, as well as the personnel, education and training capabilities, and management systems to carry out effective administration of the program, as well as the new leadership required.

(2.) The *weaknesses* in the present environment include the existing liabilities (which the end users presently have on their books due to the break up of the old State monopoly and the accounting for the value of existing inventory), the present inefficiencies of the existing organization (overstaffing, poor quality, past work attitudes, etc.), the present bureaucracy and old methods of doing things, and the strong opinions of some personnel against privatization.

(3.) The new entrepreneurship of user facilities, personnel, and joint-stock companies (physicians, chiefs of hospitals, Raion and Oblast Pharmaciya's), and the lack of employment and general lack of funds of the population, will make it difficult for a RDF to generate and collect enough cash to make the system operate efficiently.

(4.) The large number of present exemptions to user fees for pharmaceuticals (Children under 3 years of age, World War II veterans, Oncology patients, Pregnant Women, etc.) will place a large burden on the cost recovery of any RDF.

(5.) The existing IDS in the Issyk-Kul Oblast and in the Karakol area could be a trial region for the implementation of any proposed RDF. The possibility of securing some limited funds from Mercy Corps to set up a RDF in Karakol could be a valid testing ground for some of the ideas and proposals for a national RDF. This could be done rather quickly, and on a limited well watched basis, and the problems and pitfalls, as well as the possibilities and successes could be observed closely.

V. TRIP ACTIVITIES:

October 6:

Traveled to Almaty from Karakol to meet with Charles Krakoff, Dr. Michael Borowitz, and Sheila O'Dougherty to begin discussion of the Revolving Drug Fund (RDF) Study and began planning for trip to Bishkek.

October 7:

Worked in Almaty on the Revolving Drug Fund Study, reviewed background and financial information and materials, and discussed objectives with Sheila O'Dougherty and Michael Borowitz.

October 9:

Traveled to Bishkek with Charles Krakoff. Met with Dr. Tilek S. Meimanaliev of the MANAS Project to explain the objectives of the trip and to distinguish between Abt ZRP funding and Abt World Bank Study of the Revolving Drug Fund. Dr Meimanaliev expressed concern over the computer model to check the drug structure, of which we were unfamiliar, but believe he was referring to Dr. Peter Cowley's model on DALY's. He also suggested a number of MOH personnel whom we should see during the week visit.

Met with Dr. Seidalieva Chinara, Assistant to MANAS and Coordinator of the Pharmacy Component, to discuss reasons for the visit, and we discussed two lists of a total of 295 drugs on the WHO drug list for Kyrgyzstan. She stated that these two lists, plus a list of 50 critical drugs, were to be approved by the end of the month and she promised to get us a copy of the two lists the next day (see Appendix).

Met with Bolot Sarbanov, the Director of the Project Coordination Unity (PCU), and explained the reasons and objectives of our visit and distinguish between ZRP funding and projects, and the Abt World Bank Study. He was somewhat confused about all of the Abt efforts at different times, but we were able to convince him we were mainly on a "fact finding" mission, which was in preparation for the Abt World Bank Study and also looking at the possibility of assisting the Government with possible Pharmacy privatization.

October 10:

Met with MoH officials, Yrysbai Djoldubaevich, Deputy Minister of Health. He was able to give us significant information. He expressed great interest in the Karakol IDS and was interested in the possibility of an RDF in the Issyk-Kul Oblast. He stated that less than 2% of the drugs are manufactured locally, and that local pharmacies and manufactures have no capacity to produce pharmaceuticals. He said that over 3000 different drugs were circulating within the country, and that the MOH has set up a special committee to review the drug lists and develop a national formulary, and had also set up a Special Committee for Licensing of Pharmacies. He stated that all of the pharmacies in the country had been privatized, and that each Oblast had set up its own Pharmaciya joint stock company. He stated that 100% of all the wholesale and retail pharmacies had been privatized and there is no longer State Property in the Pharmacy Sector. He said that retailers were allowed to add a maximum mark-up of 25% on some drugs, but that other drugs (TB, cancer, etc.) would have a mark-up of 5-6%. He stated

that there is also a 20% tax on drugs which is presently under review. He further stated that the price of drugs was almost the same for both government and newly privatized pharmacies.

Met with Zinagul Dzchamanbaev, Deputy Chief of Division of Standardization and Control of Quality of Drugs and Medical Technics. She stated that Farmaciya still sells all the drugs to the hospital pharmacies. She said that there was a Special Committee for Registration and Licensing, and that her section was responsible for drug testing and permission to use specific drugs in polyclinics. She mentioned that the three countries (Kyrgyzstan, Kazakhstan, and Uzbekistan) were setting up a cooperative agreement to accept registration of various drugs by all three. She stated that over 400 pharmacies had been privatized with only 36 not privatized, all of which were in Bishkek. She stated that her department has six (6) divisions with a total of 31 personnel, which was due to grow to 70 positions in the near future as laboratories and testing begins.

Met with Ms. CJ Rushin-Bell, USAID representative in Bishkek. She was new in the job, only having been there a few weeks. She gave us a list of "USAID Contractor Representatives in Kyrgyzstan - see Appendix". We stated the reasons for our visit, and the objective of the World Bank Study and Revolving Drug Fund activities. She stated that AID was not involved in the privatization of the Pharmacies.

Met with Radbek Bakievich, Deputy Chairman, The State Property Fund, and his assistant Ernst A. Deuiganov. He stated that the privatization of Farmaciya had begun last year, was temporarily stopped due to the 42 million Soms of credit that was due for existing drugs in the inventory, and that privatization was now in the process of being completed. The first stage is thus almost complete, but still a lot of disagreement about the repayment of the 42 million Soms credit. He stated that each Oblast had set up a somewhat different structure for the Joint Stock Companies. With his assistant, we agreed to meet the next day to discuss the structure changes in detail.

October 11:

Met with Erkinbek Matyev, General Director of Kyrgyz Republic Kyrgyzpharmaciya, the Pharmaceutical Company. He explained the changes that had occurred over the last year and stated that the company is now a joint stock company, and that there is no holding company like the situation in Kazakhstan. Each Oblast has set up their own separate joint stock company with central raion partnerships with the oblast independent pharmaceutical companies (see report by Charles Krakoff for details on restructuring and update on number of pharmacies privatized by Oblast). He further stated that the new company has approximately 250 employees (100 in retail, 125 in wholesale, and 25 at corporate). There are approximately 50 pharmacists included among the 250 total personnel.

The General Director (GD) stated that the hospitals have little funds, and that those with budget funds had been buying drugs from foreign "private challengers" which he defined as entrepreneurs, primarily from Pakistan, bring in unregistered drugs. These challengers give "special" prices, i.e. kickbacks, to hospital chiefs, thus turning them into business men with public funds. However, there are some legitimate vendors and suppliers, but this is just beginning. There are some 1000-1200 unregistered drugs circulating in the country whereas the WHO list has about 295 drugs. There is virtually no manufacturing except a herbal medicine plant in the planning stages, which is being financed by a \$10 million credit line from Pakistan.

The Government has a \$22 million line of credit from the ECC. The GD stated that he estimated the present retail market, excluding hospitals, at approximately \$8 million.

The GD stated that he was in the job three years after being appointed by the President. He further stated that much had changed but that much still was to be done. He outlined the continuing problem of too many staff who did not feel responsible for their work, and the old problems of changing Soviet attitude towards work. He had been on a number of study tours to the West and understood the changes to be made. He stated "that competition and the market will make people more responsible". The GD felt that the new Kyrgyzpharmaciya, although previously unprofitable, could be brought into profitability in the future. This team of consultants came away with a strong feeling that the new leadership could make this change and could play a major role in any RDF program.

We met again with the State Property Group and were given more details on the various stages of privatization, and the restructuring changes that had to occur to bring about the joint stock companies (see report by Charles Krakoff).

We met with Dr. Mambetov, Head of the Treatment and Prevention Assistance Department of the MOH and discussed the RDF. He stated that the planned RDF, in his opinion, would not work effectively due primarily to the lack of funds by the public to buy drugs. He stated that the drugs on the essential drug list were very expensive, and that very few people could pay for them. He highlighted all of the exceptions which would need to be allowed to the fund (children under three years of age, WWII veterans, Oncology patients, etc.) and this would cause it not to revolve, i.e., no refunding capacity. Of the 4 million people in Kyrgyzstan, he estimates that 2 million have diseases that fit the exemption categories, and that the other 2 million are poor and can not pay for expensive drugs. He further stated that the Government will have to cover the poor and the Government has no funds. Dr. Mambetov stated that he had seen little or no change in the new Pharmaciya and that while the ownership had changed, the methods are the same.

October 12:

Worked in Bishkek on the Revolving Drug Fund Trip Report and followed up with MOH personnel for information and materials requested.

October 13:

Traveled to Almaty, met with Almaty Office personnel on various issues related to the RDF and the Karakol IDS.

October 14:

Traveled from Almaty to Philadelphia via Frankfurt

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B. PERSONS CONTACTED

Almaty:

Abt:

Michael Borowitz, MD, Regional Director

Rebecca Copeland, Deputy Director

Sheila O'Dougherty, MIS Specialist

Charles Krakoff, Privatization Specialist

Bishkek:

USAID:

CJ Rushin-Bell, USAID Representative, Bishkek

Abt Office (Karakol):

Dean Milsagle, Demonstration Site Director

Naripa Mukanova, Office Manager

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Svetlana Asankhodzhaeva, Interpreter

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Ainagul Shaykmetova, Head Basic Health Insurance

Tilek S. Meimanaliev, Programme Coordinator MANAS Project

Chinara Seidalieva, MANAS Project Deputy and Pharmacy
Coordinator

Bolot Sarbanov, Director Project Coordination Unit

Yrysbaï Djoldubaevich, Deputy Minister of Health

Zinagul Dzchamanbaeva, Deputy Chief, Division of Standardization
and Control of Drugs and Medical Technics

Radbek Bakievich, Deputy Chairman, The State Property Fund

Ernst A. Deuiganov, Deputy to the Deputy Chairman, The State
Property Fund

Erkinbek Matyev, General Director, Kyrgyzpharmaciý Pharmaceutical
Company

Dr. Mambetov, Head of Treatment and Prevention Assistance
Department

VI. ANNEXES

A. LIST OF ESSENTIAL DRUGS

- **LIST #1: WIDE AREA LIST WITH 195 DRUGS**
- **LIST #2: SPECIAL FACILITIES LIST OF 105 DRUGS**

B. USAID CONTRACTOR REPRESENTATIVES IN KYRGYZSTAN

C. BACKGROUND OF THE CONSULTANT:

George P. Purvis is an international health and hospital management consultant who has worked in 15 countries in Asia and Africa over the last twenty years. Originally trained as an industrial engineer, with an MBA in Finance, he has spent his entire career working on the issues of revenue, cost and quality in health and medical institutions and with governments. He has held positions as Chief Financial Officer, Chief Operations Officer, and Chief Executive Officer for a number of domestic and international health care organizations, as well as being a consultant to physician offices, hospitals, polyclinics, PHC programs, developmental foundations, and Ministries of Health. He is a fellow of both the American College of Healthcare Executives (ACHE) and the Healthcare Financial Management Association (HFMA). He has developed Revolving Drug Funds and international pharmaceutical supply and distribution programs in a number of countries..